

# Trade bodies call for tax deduction on R&D

Seek strengthening of India's tax competitiveness in transfer pricing

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New Delhi, 25 June

**A**head of the Budget 2024-25, trade and industry bodies on Tuesday urged Finance Minister Nirmala Sitharaman to provide tax deduction and investment to boost research and development (R&D), simplify transfer pricing regime and tweak Customs duty on certain products.

During the pre-Budget meeting with the finance minister as well as top officials from the finance ministry, exporters called for continuation of the export boosting scheme — interest equalisation, higher budgetary allocation for Market Access Initiative scheme, and steps to boost export of gems and jewellery that has been declining over the last year.

The meeting with the finance minister comes at a time when the Indian IT industry is witnessing a continued slowdown because of the global macroeconomic uncertainty. Merchandise exports are also on the slow lane due to geopolitical tensions.

IT industry lobby group Nasscom has asked for strengthening India's tax competitiveness in transfer pricing, which generally deals with transactions between companies and their subsidiaries. The body suggested increasing the threshold of international transactions of companies to make them eligible for safe harbour rules. Currently, those with up to ₹200 crore of international transactions are eligible for safe harbour rules. This should be raised to ₹2,000 crore, it felt. The industry body



## KEY DEMANDS

- Eye cut in margin rates under safe harbour
- Tweak customs duty on certain products
- Continuation of the export boosting scheme and interest equalisation
- Higher budgetary allocation for market access initiative scheme

also hoped for a reduction in the applicable margin rates under safe harbour in line with global trends. Currently, the applicable margins in India under safe harbour for IT-enabled services are 17-18 per cent, whereas globally these rates are around 5 per cent.

Federation of Indian Export Organisations, the apex body for exporters, urged the finance minister to extend the interest equalisation scheme for five years. The scheme is valid till

June 30. Under the scheme, banks provide loans to exporters at a lower interest rate, and the lenders are thereafter compensated by the government. It said, "Looking into the rise in interest rates consequent to increase in repo rate from 4.4 per cent to 6.5 per cent in the last two years, the subvention rates may be restored back from 3 per cent to 5 per cent for manufacturers in MSMEs and from 2 per cent to 3 per cent for all in respect of 410 tariff lines."

Since globally R&D is incentivised, FIEO also urged the government to boost incentives to sustain exports.

"Thirty-five out of 38 OECD countries provide either lower tax or higher deduction on R&D expenditure," it said.

Gems and Jewellery Export Promotion Council called for duty drawback on exports of jewellery, 'safe harbour' rules in special notified zones and abolition of equalisation levy for rough diamonds. These could boost the sector's exports that saw 30 per cent year-on-year (Y-o-Y) contraction in the financial year 2023-24.

